

FISCAL NOTE

SB 2241 - HB 2640

March 20, 2002

SUMMARY OF BILL:

Creates The Tax Relief and Reform Act of 2002.

- Exempts from state sales tax, effective July 1, 2002, food and food products for human consumption.
- Decreases the state sales tax, effective July 1, 2002, from 6% to 3.25% and holds local governments harmless for changes in state shared taxes generated from the sales tax.
- Maintains the 6% state sales tax rate on alcohol products, tobacco products, amusements, hotels and motels, rental of motor vehicles for 31 days or less, and items sold in professional sports venues.
- Modifies the apportionment formula for the general fund and also changes the law relative to the following.
 - Reduces from 3 to 1 the number of special censuses a municipality may take per decade for the purpose of changing allocations relative to state-shared taxes.
 - Deletes the 1% allocation of sales tax collection to the Department of Revenue for administration and enforcement of the sales tax.
 - Modifies the apportionment formula of sales tax revenue allocated for educational purposes.
- Repeals the Hall Income Tax, effective July 1, 2002, for tax years beginning on or after January 1, 2002.

Creates The Tax Reform and Relief Act of 2002.

- Imposes a graduated income tax effective July 1, 2002 with rates of 2% to 8% based on Tennessee Adjusted Gross Income.
 - Exemption Levels on which no state income tax is assessed are as follows:

Filing Status	Exemption Levels
Single or Married Filing Separate	\$15,000
Head of Household	\$22,500
Married Filing Jointly	\$30,000
For each Dependent (excluding taxpayer)	\$2,500
 - Defines Tennessee Adjusted Gross Income for purposes of calculating state income tax due as Federal Adjusted Gross Income reduced by the exemptions based on filing status.
- Exempts from state income tax, any person exempt from federal income tax, but such person is not exempt from the reporting and withholding requirements of the income tax.
- Requires each employer, maintaining an office or transacting business within the state and making payment of any wages taxable under this part

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to a resident or non-resident individual, to deduct and withhold from such wages each payroll period a tax computed in such manner as to result, in withholding from the employee's wages during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee with respect to the amount of such wages during the calendar year.

- Authorizes the commissioner of Revenue to enter into an agreement with the United States Secretary of the Treasury, and the tax officers of other states to implement the income tax and withholding provisions of the bill.
- Provides a credit against the income tax liability for any individual who has paid the Occupational Privilege Tax imposed by TCA Title 67, Chapter 4, Part 17.
- Requires, no later than 30 days after the effective date of the act, that each employer maintaining an office or transacting business within this state and making payment of wages to a resident or non-resident individual to register with the Department of Revenue by completing and filing a registration information form prescribed by the Commissioner of Revenue.
- Requires each employer that becomes subject to the withholding provisions of the act, no later than 15 days after becoming subject to withholding provisions for income tax purposes, to register with the Department of Revenue by completing and filing a registration information form prescribed by the Commissioner of Revenue.
- Authorizes any person required to register for withholding to bring an action for declaratory judgment, in the Chancery Court of Davidson County, concerning the constitutionality or validity of the income tax. Any appeal of such action must be taken directly to the Supreme Court.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - Net Impact \$391,286,000 FY 02-03
Net Impact \$480,336,000 FY 03-04

Increase State Expenditures - Exceeds \$30,000,000 Recurring
Exceeds \$25,000,000 One-Time

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



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James A. Davenport, Executive Director

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